

A PHI Company

800 King Street
Wilmington, DE 19801

P.O. Box 231
Wilmington, DE 19899-0231

302.429.3061 – Telephone
302.429.3801 – Facsimile

acwilson@pepcoholdings.com

Anthony C. Wilson
Associate General Counsel

April 17, 2007

**VIA U.S. MAIL AND
ELECTRONIC MAIL**

James McC. Geddes, Esquire
Ashby & Geddes
500 Delaware Avenue
P.O. Box 1150
Wilmington, DE 19899

RE: In the Matter of Integrated Resource Planning for the Provision of
Standard Offer Service by Delmarva Power & Light Company Under 26
Del. C. § 1007(c) & (d): Review and Approval of the Request for
Proposals for the Construction of New Generation Resources Under 26
Del. C. § 1007(d) (Opened July 25, 2006)
Docket No. 06-241

Dear Mr. Geddes:

This letter is written in response to your letter, dated April 12, 2007, on behalf of the Staff of the Delaware Public Service Commission ("Staff") and Staff's Independent Consultant ("IC") to Delmarva Power, in which you have requested that Delmarva Power provide additional sensitivity runs as part of the Interim IRP review process.

First, at the outset, Delmarva Power must express its continuing concern that Staff has not distributed this important communication to the Parties of record. As Delmarva indicated to Staff previously, when discussing Staff's IC's earlier request for post RFP evaluation runs, Delmarva Power is of the view that this should be discussed on the record. Accordingly, Delmarva's response to your request will be served on all parties of record in this proceeding.

Second, in your letter, you state that "...apparently Delmarva declined to model the requested high gas price case at 30% above the level of Delmarva's reference case natural gas forecast" because we thought it had a low probability of occurring. This assertion is simply incorrect. At no time did Delmarva Power, or its consultant, decline to run the IC's high gas price case. Rather, we received the IC's request, and we

diligently arranged a conference call in which we brought together several of our top natural gas market experts to discuss the basis for our belief that the ICF high gas price was as high as one could expect gas prices to go *on a sustained basis* (we are not discussing short term changes). We then had a substantive, in-depth discussion of such factors as the responsiveness of alternative gas supplies to price signals over time; demand elasticity to prices; and other factors affecting gas supply and demand, and we explained why we believed that ICF's high gas price was the highest reasonable long-term price that one could postulate at this time. During the call, the IC did not object or suggest that our analysis was unreasonable. The IC asked probing questions and at the end of the conversation agreed that we should run our high gas case for his scenarios. The IC gave no hint of still wanting us to run a scenario using his initial gas price request, and he accepted our recommendation to use ICF's high price case. In sum, Delmarva believed the matter had been resolved until this last request was received. Accordingly, it is not correct to state that Delmarva declined to run the IC's high gas case at that time, as it was not requested.

The same points (incorrect statement, matter believed to have been resolved and no request made) apply with respect to the statement in the letter that "the Company, for similar reasons, declined to model a more robust retirement scenario." Once again, we had an in-depth discussion with the IC of the process used in PJM to determine when units are retired, the chances that large chunks of capacity would simply be retired at a specific age, rather than based on their performance characteristics, and the potential impact on reliability of widespread retirements. At the end of the conversation, the IC agreed to our scenario of retiring just the oil/gas/steam units of 200 MW or less when they reached 60 years of age. The IC did not ask us to run the scenario of retiring all the coal units of similar size and age in addition to the oil/gas/steam ones; rather, the IC agreed that we should run the oil/gas/steam plant retirement scenario.

Delmarva is not opposed to running the additional scenarios; however, we are concerned that the requested scenarios are unrealistic and are, according to market information, so unlikely as to be unreasonable. While prices could certainly reach the level in this case for a short period (e.g., in the wake of a natural disaster such as Hurricane Katrina), prices quickly return to normal once throughput, storage, and confidence of supply is restored (as in the wake of Hurricane Katrina). Further, gas supplies available from such sources as coal-bed methane, LNG, etc., are already being induced by higher gas prices, and even higher gas prices would bring them forth faster, meaning that long-term gas prices have a limit on the extent to which they can reasonably rise.

Delmarva has been wholly collaborative with and responsive to the Staff and Staff's IC in running the scenarios to which we agreed. We spoke and exchanged e-mails with the IC regularly after reaching consensus on the scenarios, making sure that we had them prioritized correctly, making sure that he knew our schedule for delivery, letting him know if we were running into any snags, and ensuring that his work took priority. We discussed and jointly agreed, for example, that one scenario should be delayed in

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favor of another, given the IC's priorities and the deadline of April 4. Finally, nothing prevents the Staff and IC from running their own scenarios. Delmarva is in the process of running these additional scenarios, and we will complete them as soon as possible.

Should you have any questions please feel free to contact the undersigned counsel at (302) 429-3061.

Respectfully submitted,

 /jpr
Anthony C. Wilson
Associate General Counsel

cc: Docket No. 06-241 Service List (via e-mail)